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SPECIAL AD HOC COMMITTEE

COUNTRY REPORT ON INDONESIA

22 July 1947

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DOCUMENT NO. 1
NO CHANGE IN CLASS. ☐
☒ DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: 8 Feb 80 REVIEWER: 008614

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E N C L O S U R E

STATE-WAR-NAVY COORDINATING COMMITTEE

SPECIAL AD HOC COMMITTEE

SECOND PHASE SWNCC STUDY ON INDONESIA

Reference: SWN 5275

I. ANALYSIS OF THE SITUATION IN INDONESIA

A. Basic Forces

The principal basic forces operating in Indonesia are:

1. Militant nationalism, especially in Java and Sumatra, led largely by socialists. The socialist-nationalist movement has the support of a sprinkling of Communists and other leftist groups, but their activities, at least for the moment, seem to be submerged.

2. Efforts of the Netherlands authorities to salvage as much as possible of the control formerly exercised in the Indies under their interpretation of the Linggadjati agreement signed on March 25, 1947, which accorded the Indonesian Republic de facto status and envisaged the emergence of a sovereign USI and a Netherlands-Indonesian Union on about January 1, 1949.

3. Antagonisms engendered by the conflict between the two foregoing forces. These antagonisms prevent the early conclusion of necessary economic and political agreements, which in turn prevents the development of the natural resources of the Indies for the benefit both of Indonesia and the world.

Indonesia is at present divided into two spheres: (a) Java, Madura, and Sumatra, over which (with the exception of key ports and towns now occupied by Dutch military forces) the de facto authority of the Republic of Indonesia has been recognized by the Netherlands; and (b) all other islands of the Indies, known as the "Malino areas," which are controlled by the Netherlands Indies authorities.

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On March 25, 1947, the Netherlands and the Republic signed the Linggadjati agreement, which provided for cooperation of the two parties in the creation of a sovereign and democratic United States Of Indonesia composed of at least three federated states, including the Republic, and the creation of a Netherlands-Indonesian Union under Holland's sovereign. Despite the agreement, variously interpreted in Holland and in Indonesia, the opposing aims of the Netherlands and of the Republic have not yet been reconciled.

As of May 1947 Dutch-Indonesian negotiations had reached a deadlock. The major obstacles to an understanding appear to be: (a) disagreement on the Republic's degree of jurisdiction over its own economic affairs; (b) the continuing influx of Dutch ground troops, which now number about 110,000; and (c) Republican insistence on making economic discussions contingent on reduction and/or withdrawal of Dutch troops and the lifting of the naval blockade.

In Holland, as well as in the Indies, there is increasing pressure from certain Dutch circles to force a solution in the Indies by military means. A military victory would not, however, insure peace and order, since a period of guerrilla warfare, coupled with sabotage and labor strikes, would undoubtedly follow.

Indonesia is in need of rehabilitation. Dutch authorities estimate loss and damage resulting from the war at approximately US \$855,000,000, based upon 1942 price levels. More than half of this figure represents damage to the mining industry and estate agriculture. Damage to land and water transportation systems is estimated at about \$185,000,000. The remainder of the estimated war losses, approximately \$95,000,000, is evenly divided between industry and native agriculture. These figures have not been confirmed by neutral sources. There has been little or no reinvestment of private capital, except in the Dutch-held tin and petroleum industries, because of the lack of established political jurisdictions and policies. Trade from Java and Sumatra, centers of the export industry, is virtually at a standstill

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because of the Netherlands Indies Government's trade regulations of January 28, 1947, which are enforced through a blockade of these islands by the Netherlands Navy.

B. Objectives and Methods of Other Great Powers

Great Britain's interest in Indonesia centers in restoration of its trade, safeguarding its investments, and securing Indonesian good will, which is important to its wider responsibilities in Southeast Asia. Great Britain pursues a policy friendly to both parties and has effectively acted as mediator in the Dutch-Indonesian conflict.

China maintains a neutral attitude toward the political conflict but is concerned with some 1,200,000 overseas Chinese in Indonesia, who make substantial remittances to the homeland, and is interested in trade with this tropical area.

The USSR has the same interest in Indonesia that it has in all other colonial areas where the policies of metropolitan powers may frustrate nationalist movements and create among the natives an atmosphere receptive to Communistic political penetration. The Soviet Union uses developments in Indonesia for press and radio campaigns, stressing Dutch and Anglo-American imperialism. It does not appear to conduct Communist activities in Indonesia directly. The Indonesian Communist Party, although active and represented by 35 out of 432 seats in the Republic's provisional parliament, has little chance of gaining predominance, especially if Dutch-Indonesian cooperation develops successfully.

Australia and India, both potential suppliers of manufactured goods, are interested in developing trade and cultural relations with Indonesia. Australia, mindful of its own security, for which it believes a friendly Indonesian population is essential, has shown a somewhat stronger sympathy for the Indonesian nationalist cause than for Dutch efforts to reinstitute Netherlands authority. India has given the Indonesian Republic every possible moral support and has engaged in barter trade with the Republic.

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The Arab League, interested in drawing into its orbit Indonesia's 60 million Moslems, has come out in favor of granting the Republic full recognition. So far, however, discussions that have been conducted with individual countries, especially Egypt, have not resulted in the establishment of official diplomatic relations.

1. ANALYSIS OF ASSISTANCE ALREADY RECEIVED

A. Analysis of Political and Economic Premises on Which Economic Aid was Based

Aid extended by the US was based on the recognition of Netherlands sovereignty over all Indonesia and US desire to speed the reconstruction of the Indies.

The US has not been willing, however, to aid the Netherlands by supplying equipment and weapons for military purposes in Indonesia. US post factum approval of the transfer by the British of lend-lease lethal war material to the Dutch armed forces in the Indies was given as an exception rather than a reversal of our policy. It was given under conditions that made recapture of these weapons practically impossible. One Dutch Marine brigade was trained and equipped in the US during the war. This brigade was subsequently sent by the Netherlands Government to the Indies.

Aid aimed at assisting Indonesia's rehabilitation and resumption of trade involved US disposal of war surplus supplied to the NEI Government and the granting of credits to stimulate the production and flow of copra from the Indies.

B. Summary of Assistance Given

The financial and other aid already made available to the Netherlands for the Indies since VJ-day is summarized below:

1. Aid by the US

a. Surplus property credit of
\$100 million, of which \$68,335,314
had been used by May 30, 1947 - \$68,335,314

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b. US Commodity Credit Corporation book credit "not to exceed \$15 million outstanding at any one time." \$2,400,000 had been extended as of May 1947 2,400,000
\$5,000,000 of this USCCC credit is expected to be utilized in June for the purchase of Japanese textiles.

c. US Civilian Supply Deliveries, (Plan "A"), valued at approximately \$6,500,000 6,500,000

d. Lend-lease:

- 1) Direct to NEI -- value of non-lethal goods \$1,000,000
 - 2) Through UK transfers:
 - a) Agreed value of non-lethal goods 1,200,000
 - b) "Fair value" of lethal equipment 1,500,000 3,700,000
- TOTAL \$80,935,314

e. Procurement assistance through priorities for \$20 million worth of tin equipment, paid for in full by the Billiton Company, which is partly NEI Government-owned.

2. Aid by Other Countries. Financial aid to the Netherlands for the Indies advanced by other countries may be summarized as follows:

- a. Sweden -- commercial credit to be repaid on December 31, 1948 4,200,000
 - b. Australia -- for the purchase of surplus property 24,000,000
 - c. Canada -- loan of 15,000,000
- TOTAL \$43,200,000

d. Great Britain supplied the Netherlands with military equipment and trained Dutch troops. The value of this military assistance in US dollars cannot as yet be ascertained.

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In 1945 the Export-Import Bank authorized a loan to the Indies of \$100,000,000. This loan has not been finalized, however, because of uncertain political conditions and would have to be renegotiated.

On June 26, 1947, the US Government offered to discuss financial aid for rehabilitation purposes in the Indies, if such discussions were sought by a federal government representing both Indonesians and Dutch.

D. Analysis of Contribution of This Aid to the Country's Recovery

Economic aid already granted to the Netherlands authorities for the Netherlands Indies appears to have helped slightly in the economic recovery of the Dutch-controlled regions of the NEI. It has not reached the Republican areas of Java, Madura, and Sumatra, which contains about 60 out of the 72 million inhabitants of the Indies and before the war accounted for three-fourths of the Indies' foreign trade.

A considerable portion of US surplus property sold to the NEI government consisted of wartime installations and army supplies in New Guinea and other areas. This property has contributed little to the economic rehabilitation of the Indies. Other US aid, however, has been effective to some extent in speeding exports of copra and tin from Dutch-controlled areas.

E. Political Effects of Aid

The economic aid that has been given by the US and other countries for the Netherlands Indies and the manner in which it has been utilized by the NEI authorities have directly or indirectly served to strengthen the bargaining position of the Netherlands vis-a-vis the Republic and to increase Netherlands military resources in Indonesia. This aid has created the impression among the Indonesians that the Western powers are backing the Dutch. However, diplomatic pressure upon the Netherlands by Great Britain and the US has been a restraining influence and has moderated Dutch policies in Indonesia.

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III. US OBJECTIVES IN INDONESIA

Indonesia is one of the most important regions of Southeast Asia because of its large population, wealth, and strategic location. Indonesia is also in the forefront of the postwar nationalist struggle of Southeast Asiatic peoples that calls for a readjustment of old colonial relationships. The outcome of this struggle and the conditions surrounding it will have a profound effect on the future attitudes of Southeast Asia's peoples toward the Western democracies on the one hand and toward the USSR on the other.

US objectives in Indonesia must take into account over-all US objectives in Asia and Europe and also the interrelationship of Southeast Asia's dependent countries with Western European democracies.

The prime general objective of the US is a non-totalitarian Indonesia friendly to the West.

Specifically, the US wishes to:

1. Promote a peaceful and equitable implementation of the Linggadjati agreement leading to a voluntary association between the Netherlands and Indonesia.
2. Facilitate the reconstruction of the Indies and the resumption of non-discriminatory foreign trade and investment
3. Prevent the spread of Communism, Fascism, or other totalitarian regimes in the area by the political and economic measures suggested above and by fostering friendly relations with the US by cultural means.

IV. CONSIDERATION OF MEANS OF REACHING OBJECTIVES

A. Economic Means

Outside economic aid alone will not achieve political stability. The chief determinant of political stability is the achievement of Dutch-Indonesian political accord. However, economic assistance, if designed to promote Dutch-Indonesian cooperation, could speed reconstruction and economic development

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and thus reinforce stability and forestall the emergence of any form of extremism.

B. Political Means

In the present circumstances, political pressure is likely to be more effective than economic measures. The US could continue to exercise pressure upon both the Netherlands and Republican authorities, supplementing diplomatic steps with economic measures.

C. United Nations Assistance

The ways in which the United Nations and its specialized agencies may be brought into relationship with United States aid programs are set forth in the Addendum to SWNCC 360, dated April 24, 1947. The position of the Department in this regard should be considered in the light of the program as a whole rather than in the reports on individual countries.

D. Information and Cultural Means

American policies should be supported by a vigorous public relations program. The dissemination of information, combined with an exchange of persons, will familiarize Indonesians and Dutch with American policy, democratic processes, technological methods, and scientific and cultural developments, thus preparing the way for cooperation with the US and contributing to the rehabilitation and development of Indonesia.

E. Military Means

No military assistance to either side is contemplated.

V. MAGNITUDE, NATURE, AND TIMING OF THE MEASURES REQUIRED WITHIN THE NEXT THREE TO FIVE YEARS TO REACH THESE OBJECTIVES

A. Economic Measures

If Dutch-Indonesian cooperation is assured, the Indies might in the course of the next three years be able to meet without foreign government loans its own minimum import requirements to (a) alleviate the most acute consumers' goods shortages,

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(b) provide incentive to production and trade, and (c) restore essential governmental services and public utilities to the minimum extent necessary for a gradual recovery of production.

However, the process of rehabilitation would be substantially speeded and political stability reinforced by financial aid geared to political developments. It is estimated that for this purpose credits of the general magnitude of 150 to 200 million dollars would be required, mainly to effect the speedier reconstruction of transportation, utilities, and processing industries essential for the revival of trade, which in turn will contribute to stability.

The timing of extension of credits must be geared to strengthen Dutch-Indonesian cooperation progressively and will depend on future developments in Netherlands-Republican relations.

B. Political Measures

Should the Dutch-Indonesian deadlock continue and the tensions grow, the US may be called upon to offer its good offices, to mediate, or to arbitrate.

C. United Nations Measures

At an appropriate time, the United States should favor the admission of the US of Indonesia to membership in the United Nations. Membership in the United Nations and in its related agencies offers a number of advantages that will help in maintaining the economic and political stability of Indonesia. The most important of these advantages are:

1. Members of the United Nations have easier access to the organs of the United Nations and to its related agencies and broader rights of participation in the proceedings of such organs and agencies than states that are not members of the United Nations.

2. Since Indonesia's economy is in large measure dependent on international trade, it is desirable that the fullest advantage be taken of those facilities of the United Nations and its related agencies that are concerned with economic cooperation.

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3. After admission to membership, Indonesia may be expected to render general support to United States policies in the United Nations.

D. Cultural Measures

The present US program, which provides for one library at Batavia and one at Soerabaja, should be extended as soon as conditions permit to include at least one US library at the capital of the Republic, one in Sumatra, one in East Indonesia, and one in Borneo. In addition to supplying reading materials for the public, the libraries should provide a general information service regarding the US. Motion pictures and filmstrips should be shown to selected groups, especially to educational and professional organizations. The local press should be serviced with information regarding the policies and activities of the US Government, including texts of important speeches, documents, and other pertinent information. This information should also be distributed to government officials and key intellectuals throughout Indonesia. The absence of any American-controlled news service in Indonesia at present makes this service all the more necessary.

The exchange of US and Indonesian specialists, technicians, and scholars should be intensified with a view to assisting rehabilitation as well as to furthering understanding between the two countries.

The Fulbright program, if consummated, will provide funds for educational activities in Indonesia that can be financed by local currency. The program provides for research, study and teaching in Indonesia by American scholars and specialists.

VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES UNDER PRESENT POLICIESA. US Sources

The Export-Import Bank has earmarked \$100 million for use in the rehabilitation of the Indies. However, this credit was never consummated and the extension of the credit must await renegotiation. Such renegotiation will, of course, take into

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consideration the political situation and evidence of financial responsibility on the part of the debtor. It is not anticipated that US Government sources will grant any additional credits within the next three years.

B. Other Countries

Canada, at the time it extended a \$15 million credit in 1945, indicated that it would be willing to consider a request for an additional \$50 million on the same terms. However, there have been no recent indications of any further action on the matter.

C. International Sources

The World Bank might be in a position to extend a loan of \$100 million during 1948 or 1949 if the Netherlands is willing to guarantee the credit.

VII. ADDITIONAL MEASURES REQUIRED FROM THE UNITED STATES

A. Expansion of US Representation in Indonesia

In conjunction with political and economic measures, the US needs to strengthen its diplomatic representation in Indonesia by appointing a sufficient number of officers to observe political, economic, and social developments in the various areas and to report on the utilization of such aid as may be given.

VIII. NATURE OF ARRANGEMENTS TO INSURE ACCOMPLISHMENTS OF US OBJECTIVES IN TAKING SUCH MEASURES

Any US financial assistance must be so arranged as not to defeat the US objective of promoting cooperation between the Dutch and Indonesians. Only a comprehensive Netherlands-Republican agreement on the main political and economic issues can insure the effective utilization of US aid for the rehabilitation of the country. Aid extended prior to such an agreement to either of the parties may have political consequence contrary to US objectives. Post-agreement aid must be based on arrangements acceptable to both parties.

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In accordance with customary Export-Import Bank procedure, any loans should be advanced only on the basis of specific projects.

Care must be taken to insure that loans to the Netherlands for use in the homeland are not diverted to promote Netherlands military efforts in Indonesia.

IX. EFFECTS UPON INDONESIA AND UPON US FOREIGN POLICY OF US REFUSAL TO GRANT AID OR OF FAILURE OF PROGRAM UNDERTAKEN

US refusal to grant economic aid for Indonesia before comprehensive Dutch-Indonesian agreement has been reached may hasten the achievement of such an accord. Refusal to aid after Dutch and Indonesian cooperation in an interim federal government has been demonstrated might endanger its success. Such a refusal would delay the rehabilitation of the Indies and the resumption of trade. Retardation of recovery and consequent continuing low standards of living would contribute to discontent and local unrest. It may also diminish the opportunities of the US to obtain strategic materials.

Failure of a US program for politically stimulating Dutch-Indonesian voluntary cooperation and association and aiding in the rehabilitation of Indonesia would mean a sharpening of the Dutch-Indonesian conflict, possibly resulting in a local war and increased Indonesian antagonism toward the Western powers. From a long-range point of view, an Indonesian population hostile to the Western powers would make Indonesia particularly vulnerable in the event of war. A friendly and prosperous Indonesia might have great value as an arsenal in the Pacific.

X. POSSIBLE EMERGENCY SITUATION WHICH SHOULD BE ANTICIPATED AND RECOMMENDED COURSE OF ACTION

The outbreak of serious Dutch-Indonesian hostilities might create a critical situation affecting the whole relationship of Western democracies with the peoples of Southeast Asia. Should all other efforts to find a solution fail, the US might find it advisable to take the initiative in bringing the situation to the

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attention of the United Nations and thus forestall its presentation
for propaganda purposes by the Soviet Union or one of its
satellites.

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~~TOP SECRET~~A P P E N D I XSECOND PHASE SWNCC STUDY OF INDONESIASUMMARY

Indonesia is at present suffering from the effects of four years of Japanese occupation, followed by nearly two years of political upheaval. An estimate of loss and damage resulting from the war is \$855,000,000. The pre-war trade of the islands is nearly at a standstill; transport facilities, communications, agricultural and industrial enterprises are badly in need of rehabilitation. .

Preventing thus far any large-scale economic recovery in the Indies, the political differences between the Republic of Indonesia, which has emerged since the war as the nationalist government controlling Java, Sumatra and Madoera, and the Netherlands Indies Government are not yet fully resolved. While the attempt on both sides has been to work out a settlement by peaceful means, negotiations have frequently broken down during the past 18 months, and the country has more than once seemed on the verge of widespread hostilities. In March 1947, the Netherlands and the Republic signed the Linggadjati Agreement, which provided for cooperation of the two parties in the ultimate creation of a sovereign and democratic United States of Indonesia composed of at least three federated states, the Republic, East Indonesia, and West Borneo. Little progress has thus far been made in implementing this agreement, although indications are at present that agreement has been reached in principle on the formation of an Interim Federal Government over which the Netherlands will exercise determining control until creation of the projected sovereign United States of Indonesia and a Netherlands-Indonesian Union by January 1, 1949.

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Great Britain's interest in Indonesia centers in restoration of its trade, safeguarding its investments and securing Indonesian good will. China has maintained a neutral attitude toward the political conflict. The Soviet Union has used developments in Indonesia for press and radio campaigns, stressing Dutch and Anglo-American imperialism. The USSR does not appear to conduct communistic activities in Indonesia directly. Australia and India are interested in developing trade and cultural relations with Indonesia. India has given the Indonesian Republic much moral support, as have certain countries of the Arab League.

Aid extended by the U.S. was based on the recognition of the Netherlands' sovereignty over all Indonesia and the U.S. desire to speed the reconstruction of the Indies. The U.S. has not been willing, however, to aid the Netherlands by supplying military equipment for use in the Indies, and has persistently urged a peaceful settlement. Aid in the form of goods and credit extended by the U.S. to the Netherlands for the Indies since VJ-Day has amounted to approximately \$80,000,000. Aid extended by other countries has amounted to approximately \$43,000,000. In June 1947, this Government offered to discuss financial aid for rehabilitation purposes in the Indies, if such discussions were sought by a federal government representing both Indonesians and Dutch. This offer was based on a \$100,000,000 fund in the Export-Import Bank which was earmarked for the Indies in 1945.

A prime general objective of the U.S. is a non-totalitarian Indonesia, friendly to the West. We believe this can best be accomplished by a peaceful and equitable implementation of the Linggadjati Agreement leading to a voluntary association between the Netherlands and Indonesia and by facilitating the economic reconstruction of the Indies.

The most effective means of achieving the objective of the US in Indonesia appears to be through financial assistance designed to promote Dutch-Indonesian cooperation. It is estimated that

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credits of the general magnitude of 150 to 200 million dollars would be required, mainly to effect the speedy construction of transportation, utilities, and processing industries essential for the revival of trade, which in turn will contribute to political stability.

The Export-Import Bank has earmarked 100 million dollars for use in the rehabilitation of the Indies. This credit must be renegotiated after political stability has been achieved. It is not anticipated that this Government will grant any credits additional to this within the next three years. The World Bank might consider the extension of a loan to Indonesia during 1948 or 1949 if political conditions warrant.

Any U.S. financial assistance must be so arranged as to promote the U.S. objective of securing cooperation between the Dutch and Indonesians. Only a comprehensive Netherlands - Republican agreement on the main political and economic issues can insure the effective utilization of U.S. aid for the rehabilitation of the country. Refusal to aid after Dutch and Indonesian cooperation in an interim federal government has been demonstrated would delay the economic rehabilitation of the country to the point where it might become prey to a totalitarian form of government hostile to the Western Democracies.

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